

P E M B R O K E

Wealth Management

# Budgeting for Long-Term Savings

Pembroke Private Wealth Management

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# Topics

- 1 – How much can I put towards my goals?
- 2 – Where should I dedicate my money?
- 3 – What is my long-term picture?

To be read in conjunction with the disclosure & disclaimer statement.

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# 1 – How much can I put towards my goals?

- a) Itemize all your income sources
  - b) Itemize all your periodic expenses
  - c) Create a detailed annual budget
  - d) Determine your annual 'leftover'
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- ❖ What does this leftover represent in dollars?
  - ❖ Does it follow the 50 / 30 / 20 rule of thumb?

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## Example #1

- Leah makes \$100,000 annually before taxes (\$66,000 net).
  - Leah has regular bills of approximately \$3,000 monthly.
  - Leah has projects of approximately \$12,000 annually.
  - Her leftover is  $\$66,000 - \$36,000 - \$12,000 = \$18,000$ .
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- ❖ Expenses =  $\$36,000 / \$66,000 = 55\%$
  - ❖ Projects =  $\$12,000 / \$66,000 = 18\%$
  - ❖ Leftover =  $\$18,000 / \$66,000 = 27\%$

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## 2 – Where should I dedicate my money?

- a) Pay any outstanding bills.
  - b) Pay high interest debt (credit card, car loan, LOC).
  - c) Build an emergency fund (**unused** LOC, then TFSA).
  - d) Save in TFSA if low MTR; save in RRSP if high MTR.
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- ❖ Consider an FHSA if you are a first-time homebuyer.
  - ❖ Re-evaluate if mortgage payments are hard-to-manage.
  - ❖ With kids: RESP can be used for retirement savings as well.

## Example #2

- Leah has a credit card balance of \$5,000 at 21%.
  - Leah has a car loan balance of \$13,000 at 7.99%.
  - Leah has an **unused** LOC with a \$10,000 at 5%.
  - Leah is single with no kids; she is currently renting.
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- ❖ Year 1: Pay the credit card and the car loan (\$18,000).
  - ❖ Year 2: Maximize RRSP with an 18% contribution (\$18,000).
  - ❖ Note: Leah's savings' capacity will go up after paying debts.





### 3 – What is my long-term picture?

- a) Are there any real estate transactions in the future?
  - b) Are there any plans for a family (couple, kids, etc.)?
  - c) Are there any life events requiring some planning?
  - d) Are there any net worth milestones in the future?
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- ❖ You cannot build the future on shaky grounds.
  - ❖ Compounding good financial habits is the key.

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## Example #3

- Leah would like to purchase a condo in the next 5 years.
  - Leah would like to help her aging parents periodically.
  - Leah would like to travel to Europe every year.
  - Leah would like to accumulate \$500,000 in her RRSP.
- ❖ Condo: Contribute \$8,000 annually in the FHSA.
  - ❖ Parents: Use her new savings' capacity towards parents.
  - ❖ Travel: Put aside \$3,000 annually towards her travel goals.
  - ❖ RRSP: If annual growth is 7%, it would take her 22 years (n).

$$500,000 = 7,000 \times \frac{(1 + 0.07)^5 - 1}{0.07} + 15,000 \times \frac{(1 + 0.07)^n - 1}{0.07}$$



# Questions?

Reminder: The deadline to contribute into your RRSP for the 2024 tax year is **Monday, March 3, 2025.**

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